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# ADJUSTMENT IN AGRICULTURE AND THE TRADE ACT OF 1974

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## ABSTRACT

The implications of the Trade Act of 1974 on the U.S. agricultural sector are described. The Act extends the adjustment assistance provisions to farm firms and workers who suffer as a result of increased imports. Under the Act, a farmer adversely affected by trade liberalization may choose to liquidate his holdings and undergo retraining, or he may receive Government aid as a firm to enlarge his farm or switch to an alternative line of production. Provisions of the Act ensure, at the least, that agricultural sectors will not be inhibited in adjusting out of previously protected production into other areas, marking an important change in U.S. agricultural policy.

Key words: 1974 Trade Act, Agricultural adjustment assistance, Trade bills, Agricultural imports, Competition, Job retraining.

## CONTENTS

	<u>Page</u>
Introduction .....	1
Adjustment Assistance .....	1
Workers .....	2
Firms .....	3
Communities .....	4
Implications for U.S. Agriculture .....	4
Program Costs .....	7
References .....	9

# Adjustment in Agriculture and the Trade Act of 1974

by Malcolm D. Bale\*

## INTRODUCTION

Just hours before adjourning on December 20, 1974, the 93rd Congress passed the long delayed Trade Act of 1974. 1/ Besides giving the President certain negotiating authority over trade matters, as do all trade bills, this law extends and liberalizes the adjustment assistance provisions of the Trade Expansion Act of 1962. 2/ For the first time in U.S. tariff history, the law extends adjustment assistance benefits to farm owners and operators, farmworkers and farming communities. 3/ This represents a rather dramatic policy change for agriculture, and certainly one with which agricultural economists should be familiar. The purpose of this report is to examine the adjustment assistance provisions and draw implications for agriculture.

## ADJUSTMENT ASSISTANCE

Perhaps the most radical innovation of the Trade Expansion Act of 1962 was the provision of "adjustment assistance" to domestic firms and workers that suffered or were threatened with economic injury as a result of increased imports. Historically, no precedent existed either in the United States or abroad for adjustment assistance to domestic interests adversely affected by international merchandise movements. 4/ Under the 1962 Act, eligible workers

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1/Public Law 93-618, 88 Stat. 1978 (codified in scattered sections of 19 USC) and introduced as H.R. 10710, 93rd Cong., 2nd Sess. The bill was originally introduced on April 10, 1973, as the Trade Reform Act of 1973, H.R. 6767, 93rd Cong., 1st Sess.

2/See Foreign Agriculture [Foreign Agricultural Service, USDA, Jan. 20, 1975, p. 5] for a concise summary of the major provisions of the Trade Act of 1974.

3/While the law does not explicitly mention farm operators and farmworkers, Congressional intent is clear. "The Committee also intends that agricultural operations will be covered in the firm adjustment assistance program" (17, p. 145). Further, the U.S. Department of Commerce has certified six agricultural firms as eligible for adjustment assistance (15). (Underscored numbers in parentheses refer to references listed at the end of this report.)

4/Prior to this Act, the United States included an "escape clause" in trade legislation that allowed tariff increases or the imposition of quotas (such as the withdrawal of concessions) if domestic interest were injured. While such a clause has been retained in the 1974 Act, its use has been deemphasized.



could receive a trade readjustment allowance, retraining, relocation allowance, counseling, and job placement services. Eligible firms could receive loans, loan guarantees, tax concessions, and technical assistance. Similar assistance is available under the 1974 Act.

Because of the stringent criteria to be met by petitioners for assistance and because of the narrow interpretation of these criteria by the U.S. Tariff Commission (now the U.S. International Trade Commission), very few petitioners actually received adjustment assistance benefits under the 1962 Act. 5/ Of 111 worker and firm cases heard by the Tariff Commission between 1962 and May 1971, only 14 received affirmative decisions. 6/ Furthermore, not one case concerning agriculture came before the Commission; thus, there was no precedent to establish whether agricultural workers and firms would have been eligible for adjustment assistance under the 1962 Act. 7/ However, two significant changes were incorporated in the 1974 bill. First, the criteria for eligibility for adjustment assistance were liberalized. Second, farm firms and farmworkers became eligible for adjustment benefits.

Already the impact of the new criteria is noticeable. Approximately 50 percent of 2,300 completed worker petitions (as of February 28, 1978) have been approved and 88 percent of 219 completed firm hearings have received certification. Of these, 32 worker petitions and 6 firm petitions concerning agriculture have come before the Departments of Labor and Commerce, respectively (15, 16).

### Workers

Under Section 221 of the 1974 Act, a group of workers or their representative can file with the U.S. Secretary of Labor a petition of eligibility to apply for adjustment assistance. The Secretary, within 60 days, will certify a group of workers as eligible if he finds that:

- (1) a significant number or proportion of workers in a firm have become or are threatened to become totally or partially laid-off,
- (2) sales or production of the firm have decreased, and
- (3) increases in imports of articles like, or directly competitive with, articles produced by the workers' firm contributed importantly to the separation or threat of separation of the workers, and to the decline in sales or production. 8/

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5/See(2), pp. 49-79 for a discussion of the criteria for receiving adjustment assistance and the problems encountered by petitioning workers and firms.

6/In 30 cases, the Tariff Commission has divided equally on the issue of eligibility. In the case of a tied vote, the President may consider the findings of either side as the finding of the Commission. This has resulted in favorable determinations for 29 of the 30 tied cases.

7/One agricultural group, the Mushroom Growers' Association, petitioned the Tariff Commission for "escape clause" relief but was denied protection.

8/Paraphrased from Sec. 222, P.L. #93-618.

The Act eliminates the requirement that there be a causal nexus between tariff concessions and increased imports. Increased imports only have to "contribute importantly" to any separation, rather than be "the major factor," as specified in the 1962 legislation, causing unemployment or injury, and tariff levels need not have been changed. 9/

If a worker had been employed with the trade-impacted firm for 26 out of 52 weeks preceding his separation at wages of at least \$30 a week, then he is eligible to receive, for a period of up to 52 weeks, a trade readjustment allowance equal to 70 percent of his weekly earnings prior to displacement. The duration of benefits is extendable for older workers or workers in training programs. The benefit level cannot exceed 100 percent of the national average weekly manufacturing wage, which in 1976 was approximately \$190. Neither the legislation nor the Congressional Reports provide guidance as to the calculation of a weekly wage of a hired farmhand who receives wages plus perquisites such as a house, vehicle, or cash bonus based on profit.

Other benefits provided by the bill are:

- (a) counseling, testing, and placement services provided for under any Federal law,
- (b) on-the-job and vocational training for displaced workers to whom employment is unavailable, as authorized by the Secretary of Labor. (For fiscal 1975, the funding level was set at \$50 million. The legislation indicates funding is to be set at like amounts in following years.)
- (c) job search allowances of 80 percent of a worker's job search expenses up to \$500, and
- (d) relocation allowances of 80 percent of necessary relocation expenses and a lump sum payment equivalent to three times the worker's average weekly wage, up to \$500.

#### Firms

For firms, the injury test is virtually identical to that required of workers, except that petitions are filed with the U.S. Secretary of Commerce. Within 2 years following a finding of eligibility to apply for assistance, a firm must file an application for assistance which includes a proposal for adjustment. Before the proposal can be approved and assistance furnished, the Secretary of Commerce must find that the proposal:

- (a) will contribute to the adjustment of the firm,
- (b) gives consideration to workers of the firm, and

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9/Proving causality between tariff concessions and increased imports was a major stumbling block to obtaining assistance under the 1962 Act (2, p. 58). "Contributed importantly" is defined under Section 222 of the Act as a cause which is important but not necessarily more important than any other cause.

- (c) demonstrates that a firm will use its own resources, where possible for its economic development. In addition, the Secretary must find that the firm has no reasonable access to private financing. 10/

Two types of assistance are available to eligible firms. First, the Federal Government will pay up to 75 percent of the cost of technical assistance for consultants who develop, prepare, and assist in implementing an "economic adjustment proposal" for the firm. Second, loans and loan guarantees are available for working capital, modernization, construction, and acquisition of land, plant, buildings, and machinery, for periods of up to 25 years. Direct loans to any firm at any time may not exceed \$1 million, and loan guarantees may not exceed \$3 million.

### Communities

A new program established in the Trade Act of 1974 is that of community adjustment assistance. This program, by creating new industry and job opportunities, is intended to help restore the economic viability of areas adversely affected by increased imports. Under the program, local governmental units petition the Secretary of Commerce and eligible communities may receive a variety of development assistance, including technical assistance, improvement of public works, and measures designed to attract new investment.

### IMPLICATIONS FOR U.S. AGRICULTURE

For the first time in recent trade-round history, many barriers and special problems relating to agriculture are being addressed at the multilateral trade negotiations in Geneva. While it is not possible to predict the outcome of negotiations involving the policies and interests of 90 countries, agricultural products are being given explicit treatment in this round. An "Agriculture Group" has been created within the Trade Negotiations Committee to consider trade liberalization in agriculture (3, 10).

While agriculture is a relatively small sector of the U.S. economy, accounting for less than 5 percent of the gross domestic product, its trade significance

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10/Paraphrased from Sections 251 and 252, P.L. 93-618. "Reasonable access to loans" is defined as a loan at a rate of interest no higher than the maximum interest that a participating financial institution may establish on guaranteed loans made pursuant to section 7(a) of the Small Business Act. The legislation clearly helps only those firms whose injury is so severe that it may be mortal. A firm that sustains losses in sales and profits but can still obtain a "reasonable" loan is not eligible for so much as technical assistance. With respect to farm loans, it is not clear from the legislation how "reasonable access to loans" fits in with Federal funding activities such as Production Credit and the Federal Land Bank.



is considerably greater. The United States has a comparative advantage in the production of feed and food grains, exporting approximately 40 percent of its production annually (6). Therefore, if trade concessions are given for industrial products and not for agricultural products, the United States will be unable to fully utilize its agricultural comparative advantage. Of the numerous restrictions imposed by our trading partners, the variable levies of the European Community's Common Agricultural Policy on wheat and grain and Japan's sudden suspension of its quota on beef imports in February 1975 are examples. On the other hand, there are many commodities within U.S. agriculture which are protected from foreign competition by various trade distortions. Among the better known are the voluntary export restraints on wool, beef, veal, and mutton, and the import quotas on certain dairy products, cotton, and sugar.

Over the last 20 years, the U.S. farm sector has undergone massive adjustments with farm output increasing in the face of a halving of the farm labor force and a decrease in farm numbers (12). But assuming even marginal liberalization of controls on world agricultural trade, further adjustments in U.S. agricultural production and trade will occur over the next decade. While there will be gains to some sectors of agriculture, other sectors may be injured. There is likely to be a move away from production of protected agricultural products toward those where the United States has a comparative advantage. While those sectors that expand will not require (nor be eligible for) assistance, those sectors of agriculture where prices erode as a result of trade concessions or changing competitive conditions will need to adjust.

D. Gale Johnson (6) has ranked U.S. agricultural commodities by their level of comparative advantage at prevailing world prices. He finds that the United States possesses a clear comparative advantage in the production of feed grains, soybeans, wheat, tobacco, and poultry; an uncertain situation with respect to rice, cotton, flaxseed, pork, beef, and oats; and a clear comparative disadvantage in manufactured dairy products, sugar, wool, sheepmeat and peanuts.

If agricultural trade were free, estimates indicate that changes in world agricultural prices would be small, with the largest changes falling on manufactured dairy products and sugar--two products which are politically "trade sensitive" in the United States (4, 9). But the fraction of U.S. agricultural resources used in the production of these commodities is small. The crop area devoted to sugar in North America is only 0.5 percent of the cultivated area. The maximum reduction in total milk production resulting from free trade would be approximately 25 to 30 percent, or less than 5 percent of feed use (7, pp. 295-296). Other estimates (8, pp. 78-80) indicate that complete displacement of sugar and peanuts, and elimination of import restrictions on dairy products and cotton, would result in a total loss in employment and resource use of about 7 percent of farm labor and 8 percent of farmland. However, if accompanied by trade concessions from other countries on products where U.S. farmers have a clear comparative advantage, Johnson calculates that the resultant increased use of land could easily reach 20 million acres; that at worst, net labor requirements would remain unchanged, and that the value of agricultural exports would increase by \$4 to \$6 billion annually.

Even so, because of resource inflexibility, it is unlikely that resources will flow freely from the injured sectors to those sectors that have benefited from freer trade. As research on earlier agricultural adjustment has shown, such adjustments, while of manageable proportions, will not be without considerable impact on many individual farm operators and farmworkers. <sup>11/</sup> As Schmitz and Seckler (14, p. 569) note of past adjustments, "... we tend to forget the painful process that accompanied the transition from a rural to urban society. We have forgotten that for many people the transition was involuntary; that many people have been forced off the farm only into an economic and social limbo...."

With passage of the Trade Act of 1974, Government assistance in the transition either out of agriculture or into another line of agricultural production is promised. This represents a rather remarkable, albeit unintentional, change affecting U.S. agricultural policy. In general, "governments have done little to assist farm people in adjusting to farm conditions" (7, p. 861). Only isolated examples of legislation designed to assist farm resources in making an orderly transition from agriculture, such as the Rural Development Act, may be found. Pre-1974 policies restrained adjustment by providing price supports and production controls to maintain farm income and by providing import controls to protect domestic interests. The adjustment assistance provisions of the 1974 Act, however, assure, at least, that those sectors of agriculture affected by increased import competition will not be inhibited in adjusting out of the previously protected production into other agricultural or nonagricultural occupations. Thus, for example, a dairy farmer who is adversely affected by trade liberalization of manufactured dairy products has the option under the adjustment provisions to liquidate his holdings and undergo retraining, relocation, and so forth, or he may receive Government aid as a firm to enlarge his farm and/or switch into an alternative line of production.

It is not intended to belittle the difficulties likely to be encountered in the adjustment process. Even with retraining, the substitutability of labor from a dairy enterprise to nonfarm employment, given the present age composition of dairy farm operators and the high urban unemployment rate, is questionable. Likewise, there may be few alternative uses for land used in the production of manufacturing milk. An additional difficulty in the adjustment process is the capital loss that a farmer would incur. The adjustment assistance provisions do not compensate farm owners for the decline in the price of land and specialized equipment that would result from tariff removal. <sup>12/</sup>

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<sup>11/</sup>For example, see (1, 12, and 14). The Food and Agriculture Organization (5) concludes that U.S. agricultural adjustments will be manageable because "in terms of the totality of resources devoted to farming, they (the needed adjustments) would not likely have a very great impact on the (agricultural) sector as a whole."

<sup>12/</sup>Most of the benefits of protection have been capitalized into land prices, (7, p. 866). Thus, removal of certain trade barriers would have a definite depressing effect on the price of some land and equipment.

What are the implications for agricultural economists? First, extension personnel should be aware of the law in order that they may advise farmers of their prospective eligibility. Not only could extension specialists be ready to guide farmers through the adjustment assistance maze, but they could also be prepared to counsel farmers as to their options with respect to changing enterprise mix or seeking nonfarm employment. In this regard, it may be useful for extension specialists to prepare farm budgets showing the profitability of alternative enterprise mixes under various relative product price ratios, given the typical land and labor complements of farms in their region. They might also acquaint themselves with available nonfarm employment opportunities in the vicinity.

Further work is required on the process of the transition from farm to nonfarm employment. The invalid assumption of earlier research noted by Johnson (7, p. 864), that the choice between farm and nonfarm employment involves migration, should be further explored. In 1950, 16 percent of the labor force living on farms had nonfarm jobs. By 1960, the proportion had increased to 33 percent and by 1971, to 45 percent. Such statistics indicate that future adjustments out of agriculture may be less painful to individuals and to rural communities than previously thought because accepting nonfarm employment does not necessarily mean relocating.

Second, given significant relaxation of import restraints, agricultural economics departments are likely to receive many requests from farmers to assist in the preparation of a farm firm's "economic adjustment proposal." If this indeed occurs, farm management personnel may find it useful to construct a flexible computer model of a farm which shows a firm's expenditure and receipt streams, capital requirements, and growth path over, say, a 5-year period. Such a model would be particularly useful if impacted farms in the region are fairly homogeneous. 13/

Third, community and human resource development specialists may find their services in demand by some rural regions which are desirous of taking advantage of the community adjustment provisions of the bill.

#### PROGRAM COSTS

The pecuniary costs in the agriculture sector of the program have not been estimated. The costs depend on the magnitude of adjustment, which in turn depends on such variables as the extent and staging of tariff cuts or quota liberalization, relative exchange rate movements, inflation rates in the United States and abroad, relative changes in productivity, and changes in real income in the United States and in our trading partner countries. Mutti and Bale (11) have developed a model to make such estimations and have applied it to the U.S. footwear industry. Such calculations have yet to be made for agriculture.

Finally, most significant changes considered by government involve conflicts of interest. Many Pareto-superior moves entail gains and losses which are

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13/ Under the legislation the program may pay up to three-quarters of the cost of preparing an adjustment proposal.



equivalent to redistributions of income. Welfare economists use the compensation principle to ask simply if it is possible for the gainers to compensate losers so that everyone is at least as well off as before the move. In practice, such compensation is seldom made.

The adjustment assistance provisions of the Trade Act of 1974 may be regarded as an example of the gainers (consumers using government as an intermediary) actually compensating the losers in a Pareto-superior move toward free trade. Whether the losers are over- or under-compensated is a question for later research. For agriculture, a point of further significance is that the policy stimulates rational adjustment rather than inhibiting it.

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